

CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION (Continued)

The Water Utility Fund which is described below.

The Sewer Fund which is described below.

The funds of the City are described below:

Governmental Funds

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Project Funds - Capital Project Funds are used to account for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Funds

Enterprise Funds - Enterprise Funds are used to account for operations (a) which are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds - Internal Service Funds are used to finance, administer, and account for the financing of goods and services provided by one department or agency to other departments or agencies of the governmental unit on a cost reimbursement basis.

Fiduciary Funds

Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, other governments and other funds. These include expendable and nonexpendable trust, pension trust, and agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus:

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-type activities are presented using the economic resource measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.
- b. The proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting:

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified basis of accountings, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

As allowed by GASB Statement No. 20, the City's business-type activities and enterprise funds follow all GASB pronouncements and FASB Statements and Interpretations that were issued on or after November 30, 1989, except those that conflict with a GASB pronouncement.

ASSETS, LIABILITIES AND NET ASSETS/FUND BALANCE

- a. Cash and Equivalents – The City's cash and cash equivalents as reported in the Statement of Cash Flows and the Statement of Net Assets are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less.
- b. Investments – Investments are stated at the fair-market value of the underlying securities.
- c. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectable.
- d. Due to and Due From Other Funds – Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.
- e. Inventory – Inventories of the City's General, Water Utility, Sewer, and Motor Vehicle and Equipment Replacement Funds consist of supplies of repair and replacement parts maintained for internal consumption. Quantities are determined by a physical count and/or measurement which is then priced using current costs.
- f. Fixed Assets – The accounting and reporting treatment applied to property plant and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS/FUND BALANCE (Continued)

Government-Wide Statements:

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings and improvements	10-40 years
Machinery and equipment	5-20 years
Infrastructure	20-80 years

Fund Financial Statements:

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide financial statements.

The City has adopted a capitalization policy for fixed assets of \$1,000 per item.

- g. Restricted Assets - These assets are comprised of cash, certificates of deposit and other investments which are equal to the balance of utility customer service deposits. Specifically the accounts and their balances are as follows:

Cash in checking - an amount equal to utility service customer deposits.

\$53,958

- h. Long-Term Debt - The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable and notes payable.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS/FUND BALANCE (Continued)

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

- i. Compensated Absences - It is the City's policy to permit employees to accumulate a limited amount of earned but unused sick leave, which will be paid to employees upon separation from the City. In governmental funds, the cost of sick leave is recognized when payments are made to employees. In proprietary funds, the cost of vested sick leave is recognized as an expense as earned by the employees.

- j. Equity Classification

Government-Wide Statements:

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Statements:

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated, if appropriate. Proprietary fund equity is classified the same as in the government-wide statements.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUES AND EXPENDITURES/EXPENSES

Revenues:

Government-Wide Statements:

In the government-wide Statement of Activities, revenues are segregated by activity (governmental or business-type), and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues includes all revenues which do not meet the criteria of program revenues and include revenues such as property taxes, State revenue sharing payments and interest earnings.

Fund Statements:

In the governmental fund statements revenues are reported by source, such as federal sources, state sources and taxes. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency.

Expenses/Expenditures:

Government-Wide Statements:

In the government-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

Fund Statements:

In the governmental fund financial statements expenditures are classified by function.

In the proprietary fund financial statements expenses are classified by operating and nonoperating and are subclassified by function such as salaries, supplies and contracted services.

Operating Revenues and Expenses:

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing or investing activities.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUES AND EXPENDITURES/EXPENSES (Continued)

Other Financing Sources (Uses):

The transfers of cash between the various City funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Interfund Activity:

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities, and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets without equivalent flows of assets in return or a requirement for repayment.

Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

Budgets and Budgetary Accounting:

The City Council follows these procedures in establishing the budgetary data reflected in the financial statements:

- (1) Prior to the first Monday in April, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the two preceding years. The City Charter requires that the budget be submitted in summary form. In addition, detailed line item budgets are included for administrative control. The level of control for the detailed budgets is at the functional level.
- (2) Public hearings are conducted to obtain taxpayer comment.
- (3) Prior to May 31, the budget is legally enacted through passage of a resolution.
- (4) The City Manager is required by the City Charter to present a quarterly report to the City Council explaining any variance from the approved budget.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

OTHER SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (5) Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, Debt Service, Enterprise, Internal Service and Expendable Trust Funds.
- (6) Budgets for those funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). (See Basis of Accounting above).
- (7) The City Charter requires the adoption of a summary budget for proprietary funds.
- (8) Appropriations lapse at the end of each fiscal year.
- (9) The City Council may authorize supplemental appropriations during the year.

The budget for the year ended June 30, 2006 was formally adopted by action of the City Council on May 16, 2005 and was amended on January 16, 2006 and June 19, 2006.

Property Taxes:

Property taxes attach as an enforceable lien on property as of January 1, and are levied, due and payable as of July 1. All unpaid taxes become delinquent on August 10 of the same year. Property tax revenues are recognized when they become available. Available includes those taxes expected to be collected within sixty days after year end.

RESERVATIONS AND DESIGNATIONS OF FUND BALANCES AND RETAINED EARNINGS

Reservations are used to indicate that a portion of fund balance/retained earnings is not appropriable for expenditure or is legally segregated for a specific future use.

Designations indicate tentative plans or intent for resource utilization in a future period and are thus subject to change and may never be legally authorized or result in expenditure.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(Continued)

NOTE B - CASH AND INVESTMENTS

Cash and Equivalents

The City's cash and equivalents, as reported in the Statement of Net Assets, consisted of the following:

Petty cash	\$ 1,650
Checking accounts	91,184
Repurchase sweep checking accounts	<u>1,939,805</u>
TOTAL	<u>\$2,032,639</u>

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of June 30, 2006, the City's checking accounts were not exposed to credit risk because they were fully insured. The repurchase sweep checking accounts were collateralized with U.S. Govt. securities with a fair market value of \$4,793,339 at June 30, 2006.

Investments

The City's investments, as reported in the Statement of Net Assets, consisted of the following:

Investment Type	Fair Value	(Investment Maturities in Years)		
		Less Than 1	1-5	6-10
Certificates of Deposit	\$ 2,448,808	\$ 1,674,389	\$ 774,419	\$ -
Pooled Funds	254	254	-	-
U.S. Agencies	<u>2,874,082</u>	<u>941,878</u>	<u>1,317,684</u>	<u>614,520</u>
TOTAL	<u>\$ 5,323,144</u>	<u>\$ 2,616,521</u>	<u>\$ 2,092,103</u>	<u>\$ 614,520</u>

Investments are recorded at fair market value, which is based on quoted market prices.

Michigan statutes authorize the City to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days of date of purchase, bankers' acceptances of United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds.

Interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the City's investments. State law limits the allowable investments as described above. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(Continued)

NOTE B - CASH AND INVESTMENTS (Continued)

Investments (Continued)

Credit Risk. Credit risk is the risk that an issuer or other party to an investment will not fulfill its obligations. The City has no investment policy limiting its investments in excess of state law on investment credit. Ratings are not required for the City's investments outlined above. The City's investments are in accordance with statutory authority.

NOTE C - RETIREMENT PLANS

Michigan Employee's Retirement System (MERS)

Description of Plan and Plan Assets - The Plan is an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS) of Michigan. The system provides the following provisions: service retirement, deferred retirement and disability retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25 percent times the final average compensation (FAC) with a maximum benefit of 80% of FAC. The most recent period of which actuarial data was available was for the fiscal year ended December 31, 2005.

MERS was created under Public Act 135 of 1945, repealed and replaced by successor Municipal Employees Retirement Act of 1984 (PA 427), as last amended by 2004 PA 490, and the MERS Plan Document, as revised. MERS was established to provide a pooled program for retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. MERS issues a publicly available financial report that includes financial statements and requires supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by the City, which requires employees to contribute 5% of gross wages to the plan. The City is required to contribute at an actuarially determined rate. The contribution rate as a percentage of payroll at December 31, 2005 was 24.56%.

Annual Pension Cost - During the fiscal year ended December 31, 2005, the City's contributions totaling \$196,120 and employee contributions of \$49,956 were made in accordance with contribution requirement determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(Continued)

NOTE C - RETIREMENT PLANS (Continued)

Actuarial Valuation Date	Accrued Actuarial Value of Assets (a)	Actuarial Liability - (AAL) Entry Age (b)	Underfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a-b)/c)
12/31/03	\$ 6,446,615	\$ 9,271,240	\$ (2,824,625)	70%	1,185,582	(238%)
12/31/04	\$ 6,499,458	\$ 9,878,776	\$ (3,379,318)	66%	1,088,559	(310%)
12/31/05	\$ 6,472,445	\$ 9,928,725	\$ (3,456,280)	65%	976,618	(354%)

Police and Fireman's Retirement System

Description of Plan and Plan Assets

In September, 1938 the City voters approved establishing a Police and Firemen's Retirement system pursuant to Act 345 of the Public Acts of 19377, as amended. The retirement system covers all full time employees of the City's public safety department. Benefits are payable to retirees age 60 or older, regardless of their years of service or age 50 with 25 or more years of service.

The City's contribution to the system amounted to \$391,701 for the year ended June 30, 2006 and has been determined to be \$403,482 for the fiscal year beginning July 1, 2006.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by the City, which requires employees to contribute 5% of gross wages to the plan. The City is required to contribute at an actuarially determined rate. The contribution rate as a percentage of payroll at June 30, 2006 was 30.96%.

Annual Pension Cost - During the fiscal year ended June 30, 2006, the City's contributions totaling \$391,701 and employee contributions of \$68,824 were made in accordance with contribution requirement determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 7.5 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(Continued)

NOTE C - RETIREMENT PLANS (Continued)

Actuarial Valuation Date	Accrued Actuarial Value of Assets (a)	Actuarial Liability - (AAL) Entry Age (b)	Underfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a-b)/c)
06/30/03	\$ 7,814,505	\$ 10,328,310	\$ (2,513,805)	76%	1,317,719	(191%)
06/30/04	\$ 7,599,354	\$ 10,716,806	\$ (3,117,452)	71%	1,340,972	(232%)
06/30/05	\$ 7,411,541	\$ 10,991,998	\$ (3,580,457)	67%	1,237,640	(289%)

NOTE D - INTERFUND BALANCES AND TRANSFERS

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources. Such transactions are generally reflected as transfers in the various funds' financial statements.

In the fund financial statements, individual interfund receivable and payable balances at June 30, 2006 arising from these transactions are as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Fund</u>	<u>Interfund Payables</u>
General Fund	\$ 74,997	General Fund	\$ 6,750
Major Street	71	Major Street	12,500
T.I.F.A. Debt Service	2,069	Local Street	16,003
T.I.F.A.	5,947	T.I.F.A. Debt Service	1,295
Nonmajor Governmental	30	Nonmajor Governmental	640
Water Utility	5,787	Water Utility	66,682
Sewer	23,088	Sewer	371
		Cemetery Trust	1,712
		Motor Vehicle	6,036
Totals	\$ 111,989		\$ 111,989



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(Continued)

NOTE D - INTERFUND BALANCES AND TRANSFERS (Continued)

In the statement of net assets, interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$ 45,677	General	\$ 125
Water Utility	5,787	Water Capital	
		Improvement	640
		Local Street	5,022
		Water Utility	43,594
		Sewer	371
Totals	<u>\$ 51,464</u>		<u>\$ 49,752</u>

In the fund financial statement, interfund transfers for the year ended June 30, 2006 were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
General	\$ 89,927	General	\$ 107,700
Nonmajor		Nonmajor	
Governmental	236,067	Governmental	132,033
T.I.F.A. Debt Service	1,007,315	T.I.F.A.	1,054,587
Water Utility	19,787	Water Utility	84,000
Motor Vehicle	45,200	Cemetery Trust	19,976
Totals	<u>\$ 1,398,296</u>		<u>\$ 1,398,296</u>

In the statement of activities, interfund transfers are as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
General Fund	\$ 39,976	Water Capital	
Water Capital		Improvement	\$ 19,787
Improvements	64,000	Water Utility	84,000
Water Utility	19,787		
Totals	<u>\$ 123,763</u>		<u>\$ 103,787</u>

CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(Continued)

NOTE E – CAPITAL ASSETS

GOVERNMENTAL ACTIVITIES

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Fixed asset activity for the year ended June 30, 2006 was as follows:

	<u>July 1, 2005</u>	<u>Additions</u>	<u>Cost</u> <u>Deletions</u>	<u>June 30, 2006</u>
Land and improvements	\$ 3,344,869	\$ 887,198	\$ -	\$ 4,232,067
Buildings	4,274,161	3,504	-	4,277,665
Equipment	1,394,009	335,413	(131,608)	1,597,814
Vehicles	2,250,191	-	(1,025)	2,249,166
Sewer system	12,465,907	666,300	(487,513)	12,644,694
Roads	17,791,357	564,418	(245,338)	18,110,437
Total Cost	<u>\$ 41,520,494</u>	<u>\$ 2,456,833</u>	<u>\$ (865,484)</u>	<u>\$43,111,843</u>
		<u>Accumulated Depreciation</u>		
		Current		
	<u>July 1, 2005</u>	<u>Depreciation</u>	<u>Deletions</u>	<u>June 30, 2006</u>
Land improvements	\$ 201,410	\$ 23,704	\$ -	\$ 225,114
Buildings	1,401,106	108,821	-	1,509,927
Equipment	973,907	94,854	(104,756)	964,005
Vehicles	1,329,295	107,438	(1,025)	1,435,708
Sewer system	3,206,899	240,674	(487,513)	2,960,060
Roads	10,881,729	875,690	(245,338)	11,512,081
Total Accumulated Depreciation	<u>17,994,346</u>	<u>\$ 1,451,181</u>	<u>\$ (838,632)</u>	<u>18,606,895</u>
Net Assets	<u>\$ 23,526,148</u>			<u>\$24,504,948</u>

Depreciation expense was charged to governmental activities as follows:

Governmental activities:

General government	\$ 53,849
Public safety	43,409
Parks and recreation	41,826
Cemetery	2,793
General public works	<u>1,309,304</u>

Total governmental activities depreciation expense \$ 1,451,181



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(Continued)

NOTE E – CAPITAL ASSETS (Continued)

BUSINESS TYPE ACTIVITIES

	<u>Cost</u>			
	<u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2006</u>
Land	\$ 43,236	\$ -	\$ -	\$ 43,236
Equipment	180,346	1,690	-	182,036
Water and sewer system	10,564,847	1,190,139	-	11,754,986
Total Cost	<u>\$ 10,788,429</u>	<u>\$ 1,191,829</u>	<u>\$ -</u>	<u>\$ 11,980,258</u>

Accumulated Depreciation

	<u>Current</u>			
	<u>July 1, 2005</u>	<u>Depreciation</u>	<u>Deletions</u>	<u>June 30, 2006</u>
Equipment	\$ 92,133	\$ 8,189	\$ -	\$ 100,322
Water and sewer system	1,731,699	132,850	-	1,864,549
Total Accumulated Depreciation	<u>1,823,832</u>	<u>\$ 141,039</u>	<u>\$ -</u>	<u>1,964,871</u>
Net Assets	<u>\$ 8,964,597</u>			<u>\$ 10,015,387</u>

Depreciation charged to expense was \$141,039 for the year ended June 30, 2006.

NOTE F - LONG-TERM DEBT

GOVERNMENTAL ACTIVITIES

The following is a summary of changes in long-term debt for the year ended June 30, 2006:

<u>Type of Debt</u>	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2006</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
1991 T.I.F.A. Bonds	\$ 360,000	\$ -	\$ (360,000)	\$ -	\$ -
1993 T.I.F.A. Bonds	3,225,000	-	(475,000)	2,750,000	510,000
1996 Installment Note	25,315	-	(25,315)	-	-
2002 Installment Note	280,938	-	(17,871)	263,067	18,418
2005 Installment Note	91,796	-	(8,064)	83,732	8,231
2005 Installment Note	19,685	-	(9,949)	9,736	9,736
2006 Installment Note	-	151,700	(9,604)	142,096	19,728
I/T Capital Lease	-	78,094	(24,863)	53,231	26,014
Vested compensated absences	<u>13,657</u>	<u>5,413</u>	<u>-</u>	<u>19,070</u>	<u>6,513</u>
Total long-term debt	<u>\$ 4,016,391</u>	<u>\$ 235,207</u>	<u>\$ (930,666)</u>	<u>\$ 3,320,932</u>	<u>\$ 598,640</u>

The total amount of interest charged to expense was \$195,521.

CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(Continued)

NOTE F - LONG-TERM DEBT (Continued)

BUSINESS-TYPE ACTIVITIES

<u>Type of Debt</u>	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u>	<u>Amounts</u>
	<u>July 1, 2005</u>			<u>June 30, 2006</u>	<u>Due Within</u>
					<u>One Year</u>
2004 Bonds Payable	\$4,650,000	\$ -	\$(85,000)	\$4,565,000	\$85,000

The total amount of interest charged to expense was \$70,785. Interest expenses capitalized during the year amounted to \$145,003.

GOVERNMENTAL ACTIVITIES

Debt service requirements on long-term debt at June 30, 2006 are as follows:

<u>For the Year</u>	<u>Notes Payable and</u>		<u>Bonds Payable</u>		<u>Total</u>
	<u>Capital Lease</u>				
<u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2007	\$ 82,127	\$ 24,108	\$ 510,000	\$ 131,800	\$ 748,035
2008	75,598	20,627	540,000	106,300	742,525
2009	50,533	17,798	560,000	79,300	707,631
2010	52,766	15,565	565,000	51,300	684,631
2011	55,091	13,241	575,000	25,875	669,207
2012-2016	206,392	32,599	-	-	238,991
2017-2021	29,355	2,026	-	-	31,381
Total	\$ 551,862	\$ 125,964	\$ 2,750,000	\$ 394,575	\$ 3,822,401

It is estimated that vested compensated absences will mature subsequent to the year ending June 30, 2006.





CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(Continued)

NOTE F - LONG-TERM DEBT (Continued)

BUSINESS-TYPE ACTIVITIES

For the Year Ending June 30	Principal	Bonds Payable Interest	Total
2007	\$ 85,000	\$ 213,515	\$ 298,515
2008	90,000	210,115	300,115
2009	90,000	206,515	296,515
2010	95,000	202,915	297,915
2011	100,000	199,115	299,115
2012-2016	550,000	933,460	1,483,460
2017-2021	690,000	805,870	1,495,870
2022-2026	880,000	629,888	1,509,888
2027-2031	1,145,000	388,000	1,533,000
2032-2036	840,000	85,500	925,500
Total	\$ 4,565,000	\$ 3,874,893	\$ 8,439,893

GOVERNMENTAL ACTIVITIES

As of June 30, 2006, the governmental activities long-term debt consisted of the following:

1993 Bonds Payable

1993 Tax Increment Bonds originally totaling \$5,715,00 (denomination \$5,000 each) dated February 1, 1993 mature annually on May 1 through 2011. Interest is paid semi-annually on November 1, and May 1 of each year at the stated coupon rate as reflected below.

The bonds were issued by the Tax Increment Finance Authority of the City of Iron Mountain for the purpose of financing the following capital projects:

The project included separation of storm sewer from sanitary sewer and placement of approximately 25,000 lineal feet of new trunk line storm sewer, storm sewer leads, manholes, catch basins and related appurtenances within the Tax Increment Finance Authority City (TIFA City) and adjacent tributary areas to correct flooding problems within the TIFA City. Also included was improvement to Mud Lake (East) for detention of storm water and selected water main and other sanitary sewer improvements.

The bonds and interest thereon are payable primarily from the property tax revenues of the Tax Increment Finance Authority. As additional security for the payment of bond principal and interest, the City has pledged it's full faith and credit. Hence, these bonds are said to be limited tax general obligation bonds.

CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(Continued)

NOTE F - LONG-TERM DEBT (Continued)

Bonds or portions of bonds in multiples of \$5,000 of this issue maturing in the years 2002 to 2011, inclusive, are subject to redemption, at the option of the Authority in such order of maturity as determined by the Authority and by lot, on any interest payment date on or after May 1, 2001 at par and accrued interest to date fixed for redemption plus a premium expressed as a percentage of par as follows:

1% of the principal amount of each Bond or portion thereof called for redemption on or after May 1, 2003 but prior to May 1, 2006;

No premium shall be paid on Bonds or portions thereof called for redemption on or after May 1, 2006.

Notes Payable

5.06% loan payable \$15,872 semi-annually including interest and secured by truck equipment. The loan was in the original amount of \$329,251 and it matures in 2017. The loan balance at June 30, 2006 was \$263,067.

4.10% loan payable \$5,898 semi-annually plus interest and secured by truck equipment. The loan was in the original amount of \$96,000 and it matures in the year 2014. The loan balance at June 30, 2006 was \$83,732.

2.80% loan payable \$10,013 annually including interest and is unsecured. The loan was in the original amount of \$19,685 and it matures in 2006. The loan balance at June 30, 2006 was \$9,736.

3.69% loan payable \$12,395 semi-annually including interest and is secured by truck equipment. The loan was in the original amount of \$151,700 and it matures in 2012. The loan balance at June 30, 2006 was \$142,096.

Capital Lease

4.534% capital lease payable \$2,324 monthly including interest and secured by computer hardware and software. The capital lease, in the original amount of \$78,094, which included \$58,094 for hardware and software and \$20,000 for training, matures in 2008. The hardware and software cost of \$58,094 is included in equipment under Governmental Activities and had accumulated depreciation of \$11,619 at June 30, 2006.

Future minimum lease payments at June 30, 2006 were as follows:

2007	\$27,891
2008	<u>27,894</u>
Total	<u>\$55,785</u>



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(Continued)

NOTE F - LONG-TERM DEBT (Continued)

BUSINESS-TYPE ACTIVITIES

2004 Bonds Payable

Series 2004 Limited Tax General Obligation Bonds originally totaling \$4,800,000 (denomination \$5,000 each) dated August 1, 2004 mature annually on March 1 through 2034. Interest is paid semi-annually on September 1 and March 1 of each year at the stated coupon rate as reflected below.

The bonds were issued by the City of Iron Mountain for the purpose of paying part of the cost of acquiring, constructing, furnishing and equipping certain capital improvement items consisting of water system improvements together with all appurtenances, attachments and related facilities.

The bonds and interest thereon are payable primarily from fees charged to customers of the water utility system. The City, however, as additional security for the payment of bond principal and interest, has pledged its full faith and credit accordingly, the bonds are said to be limited tax general obligation bonds.

The bonds maturing on or prior to March 1, 2013 shall not be subject to redemption prior to maturity. Bonds maturing on or after March 1, 2014 shall be subject to redemption prior to maturity at the option of the City, in such order as shall be determined by the City, on any one or more interest payment dates on or after March 1, 2013. Bonds of a denomination greater than \$5,000 may be partially redeemed in the amount of \$5,000 or any integral multiple thereof. If less than all of the bonds maturing in any year are to be redeemed, the bonds or portions of bonds to be redeemed shall be selected by lot. The redemption price shall be the par value of the bonds or portion of the bonds called to be redeemed plus interest to the date fixed for redemption.

NOTE G - COMPENSATED ABSENCES

Pursuant to the requirements of Financial Accounting Standards Board Statement 43, the City accrues a liability for compensated absences.

For governmental funds the liability for compensated absences is recorded in the general long-term debt account group since it is anticipated that none of the liability will be liquidated with expendable available financial resources. The liability for compensated absences is recorded in proprietary fund types (Enterprise and Internal Service Funds) as accrued liabilities in accordance with FASB Statement 43.

Specifically, the various contracts and agreements covering the City's personnel allow for the vesting and/or accumulation of sick leave as follows:

	<u>Accumulated</u>	<u>Vested</u>
Firemen	\$100,165	\$ -
Police	156,501	12,557
City Hall Office	58,966	-
Other City Employees	<u>177,632</u>	<u>6,513</u>
TOTALS	<u>\$493,264</u>	<u>\$19,070</u>

CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(Continued)

NOTE H - TAX INCREMENT FINANCING AUTHORITY

Pursuant to applicable Michigan statutes the Iron Mountain City Council passed a resolution on May 20, 1985 creating a Tax Increment Financing Authority City which covers an area of approximately 1,300 acres along the highway U.S. 2 corridor from the south to the north city limits. Its purpose is to generate revenue (as discussed below) and to expend such amounts within the City for improvements to streets, curbs, sidewalks, and sewers.

The Authority's intended source of funding is property taxes levied within the City but only to the extent that such taxes are generated as a result of an increase in the total state equalized value since the established property evaluation base date of January 1, 1985. Accordingly, the Authority's first revenues received were from the July and December, 1985, tax billings.

NOTE I - WATER AND SEWER AGREEMENTS

The City has a long-term agreement with the Iron Mountain-Kingsford Joint Sewage Authority for sewage treatment. The agreement is established by ordinance (Chapter 3 Article 2) which provides for sewer rates, minimum monthly charges and a collection fee to be retained by the City for billing services provided. These rates can be adjusted periodically through ordinance amendments.

NOTE J - POST EMPLOYMENT HEALTH INSURANCE BENEFITS

In addition to providing pension benefits, the City provides health insurance benefits for its retired employees. Substantially all of its employees may become eligible for those benefits if they reach normal retirement age while working for the City. The cost of retiree's health care insurance is recognized as an expenditure as insurance premiums are paid. For fiscal 2006, the cost was \$276,000 for Police and Fire Retirees and \$356,473 for other retirees. The employees contributions amounted to \$2,076.

NOTE K - RISK MANAGEMENT

The City of Iron Mountain is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City of Iron Mountain maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(Continued)

NOTE L – RESERVED AND DESIGNATED FUND BALANCES AND OTHER EQUITY

The City has reserved and designated fund balances or retained earnings at June 30, 2006 as follows:

General Fund:

1. An amount equal to inventory, a nonappropriable asset.	\$39,147
2. Funds earmarked for a police liason officer.	7,492
3. An amount equal to delinquent property taxes receivable. These delinquent taxes, if collectible, are not expected to be substantially collected within one year.	17,551
4. Fire safety house	<u>4,402</u>
TOTAL	<u>\$68,592</u>

Debt Service Funds:

1991/1993 T.I.F.A. Bonds - Reserved Fund Balance - \$1,588,644; an amount to be used for future servicing of general obligation debt.

Capital Improvement Fund:

Designated Fund Balance - \$385,531; an amount equal to the fund's equity intended for future budgeted capital projects pursuant to a ten year plan.

Water Capital Improvement Fund:

Designated Fund Balance - \$576,578; an amount equal to the fund's equity intended for future budgeted water system construction projects.

Water Utility Fund:

Designated Retained Earnings - \$7,065,749; an amount retained for future operations and capital expenditures.

Sewer Fund:

Designated Retained Earnings - \$106,456; an amount retained for future operations and capital expenditures.

Motor Vehicle Fund:

Designated Retained Earnings - \$1,275,868 an amount retained for future operations and capital expenditures.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(Continued)

NOTE L – RESERVED AND DESIGNATED FUND BALANCES AND OTHER EQUITY (Continued)

Cemetery Perpetual Care Trust Fund:

Reserved Fund Balance - \$459,515; non-expendable accumulated proceeds of cemetery perpetual care leases sold.

Retirees' Health Insurance Fund:

Reserved Fund Balance - \$391,843, an amount which will be used to pay retirees health insurance premiums.

Police and Firemen's Pension Trust Fund:

Reserved Fund Balance - \$7,311,397; legally restricted for payments to retirees or active participants (upon withdrawal).

Additionally, the fund balances of the Tax Increment Financing Authority, \$1,455,858; and the Downtown Development Authority, \$33,423 as presented herein are reflected as being reserved as they represent amounts which have been restricted for use in budgeted capital projects.

NOTE M – COMMITMENTS

At June 30, 2006 the City had committed to the following contracts:

T.I.F.A. Highway Project	\$188,200
T.I.F.A. Utility Project	172,066
City Park Pavilian Restoration	97,600
Road Intersection Project	<u>31,400</u>
Total Commitments	<u>\$489,266</u>

NOTE N – PRIOR PERIOD ADJUSTMENTS

Certain errors resulting in the understatement of previously reported accounts receivable in the general fund were discovered during the current year. Accordingly, an adjustment of \$171,366 was made during 2006 to write up accounts receivable as of the beginning of the year. A corresponding entry was made to increase previously reported fund balance in the general fund and the governmental activities net assets in the same amount.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

(Continued)

NOTE O - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Public Act 621 of 1978, as amended, provides that a City shall not incur expenditures in excess of amounts appropriated. The City budgeted expenditures on a functional basis.

During the year ended June 30, 2006, the City incurred expenditures in a certain account which was in excess of the amounts appropriated as follows:

<u>Fund</u>	<u>Total Expended</u>	<u>Expenditure Appropriated</u>	<u>Excess Amount</u>
General Fund:			
General Government	\$953,205	\$907,620	\$(45,585)
Debt Service	\$ 27,891	\$ -	\$(27,891)

The excess of expenditures over appropriations noted above were primarily the result of an audit adjustment to record the new capital lease in the general fund.



REQUIRED
SUPPLEMENTAL

CITY OF IRON MOUNTAIN

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND

June 30, 2006

	Budgeted Amounts		Actual (Budgetary Basis) (Note A)	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES:				
General property taxes	\$ 3,018,834	\$ 3,018,834	\$ 3,020,068	\$ 1,234
Licenses and permits	121,500	121,500	20,564	(100,936)
State grants	826,000	826,000	872,349	46,349
Federal grants	80,500	80,500	55,589	(24,911)
Charges for services	244,800	244,800	260,165	15,365
Local sources	39,000	39,000	39,431	431
Fines and forfeits	17,800	17,800	23,684	5,884
Interest and rents	43,000	43,000	86,255	43,255
Other	98,885	98,885	96,498	(2,387)
TOTAL REVENUES	4,490,319	4,490,319	4,474,603	(15,716)
EXPENDITURES:				
Legislative	16,368	16,368	15,003	1,365
General government	855,770	907,620	953,205	(45,585)
Public safety	2,255,215	2,356,565	2,345,086	11,479
Public works	829,670	829,670	770,602	59,068
Park and recreation	74,584	84,084	87,005	(2,921)
Debt service	-	-	27,891	(27,891)
Other	156,010	186,010	185,935	75
TOTAL EXPENDITURES	4,187,617	4,380,317	4,384,727	(4,410)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	302,702	110,002	89,876	(20,126)
OTHER FINANCING SOURCES (USES):				
Operating transfers in	148,300	148,300	89,927	(58,373)
Loan proceeds	-	-	78,094	78,094
Operating transfers out	(107,700)	(107,700)	(107,700)	-
TOTAL OTHER FINANCING SOURCES (USES)	40,600	40,600	60,321	19,721
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	343,302	150,602	150,197	(405)
FUND BALANCE, JULY 1	1,075,203	1,075,203	1,075,203	-
FUND BALANCE, JUNE 30	\$ 1,418,505	\$ 1,225,805	\$ 1,225,400	\$ (405)

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF IRON MOUNTAIN

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL MAJOR STREET

June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
State grants	\$ 545,000	\$ 545,000	\$ 653,221	\$ 108,221
Interest and rents	7,500	7,500	22,403	14,903
Other	1,500	1,500	(1,266)	(2,766)
TOTAL REVENUES	554,000	554,000	674,358	120,358
EXPENDITURES:				
Public works	627,993	627,993	598,322	29,671
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(73,993)	(73,993)	76,036	150,029
FUND BALANCE, JULY 1	568,426	568,426	568,426	-
FUND BALANCE, JUNE 30	<u>\$ 494,433</u>	<u>\$ 494,433</u>	<u>\$ 644,462</u>	<u>\$ 150,029</u>

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



The accompanying notes to the financial statements are an integral part of this statement.

CITY OF IRON MOUNTAIN

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL LOCAL STREET

June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES:				
State grants	\$ 236,700	\$ 236,700	\$ 232,778	\$ (3,922)
Interest and rents	3,000	3,000	13,617	10,617
Other	1,000	1,000	2,210	1,210
TOTAL REVENUES	240,700	240,700	248,605	7,905
EXPENDITURES:				
Public works	448,696	448,696	341,707	106,989
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(207,996)	(207,996)	(93,102)	114,894
FUND BALANCE, JULY 1	357,153	357,153	357,153	-
FUND BALANCE, JUNE 30	\$ 149,157	\$ 149,157	\$ 264,051	\$ 114,894

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



The accompanying notes to the financial statements are an integral part of this statement.

OTHER
SUPPLEMENTAL
INFORMATION

CITY OF IRON MOUNTAIN

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2006

	Police Law Enforcement	Municipal Building	Capital Improvement	Water Capital Improvement
ASSETS:				
Cash and equivalents	\$ -	\$ -	\$ 389,463	\$ 77,015
Investments	-	-	-	494,823
Receivables:				
Taxes	-	-	-	-
Accounts	-	-	-	-
Interest & dividends	-	-	-	6,344
Due from other funds	-	-	-	-
TOTAL ASSETS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 389,463</u>	<u>\$ 578,182</u>
LIABILITIES:				
Accounts payable	\$ -	\$ -	\$ 3,932	\$ 835
Due to other funds	-	-	-	640
Deferred revenue	-	-	-	129
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>3,932</u>	<u>1,604</u>
FUND BALANCE AND OTHER CREDITS:				
Fund balances:				
Reserved	-	-	-	-
Unreserved:				
Designated	-	-	385,531	576,578
TOTAL FUND BALANCE AND OTHER CREDITS	<u>-</u>	<u>-</u>	<u>385,531</u>	<u>576,578</u>
TOTAL LIABILITIES, FUND BALANCE AND OTHER	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 389,463</u>	<u>\$ 578,182</u>



**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS



Downtown Development Authority	Total Nonmajor Governmental Funds
\$ 33,638	\$ 500,116
-	494,823
488	488
369	369
-	6,344
30	30
<u>\$ 34,525</u>	<u>\$ 1,002,170</u>
\$ 1,102	\$ 5,869
-	640
-	129
<u>1,102</u>	<u>6,638</u>
33,423	33,423
-	962,109
<u>33,423</u>	<u>995,532</u>
<u>\$ 34,525</u>	<u>\$ 1,002,170</u>

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF IRON MOUNTAIN

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2006 .

	Police Law Enforcement	Municipal Building	Capital Improvement	Water Capital Improvement
REVENUES:				
General property taxes	\$ -	\$ -	\$ -	\$ -
Interest and rents	-	-	15,414	21,820
Other	-	-	4,198	(3,510)
TOTAL REVENUES	-	-	19,612	18,310
EXPENDITURES:				
Public works	-	-	20,560	835
TOTAL EXPENDITURES	-	-	20,560	835
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	-	(948)	17,475
OTHER FINANCING SOURCES (USES):				
Operating transfers in	-	-	172,067	64,000
Operating transfers out	(15,895)	(96,351)	-	(19,787)
TOTAL OTHER FINANCING SOURCES (USES)	(15,895)	(96,351)	172,067	44,213
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(15,895)	(96,351)	171,119	61,688
FUND BALANCE, JULY 1	15,895	96,351	214,412	514,890
FUND BALANCE, JUNE 30	\$ -	\$ -	\$ 385,531	\$ 576,578



**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS

<u>Downtown Development Authority</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 36,233	\$ 36,233
1,324	38,558
<u>2,200</u>	<u>2,888</u>
<u>39,757</u>	<u>77,679</u>
<u>8,600</u>	<u>29,995</u>
<u>8,600</u>	<u>29,995</u>
<u>31,157</u>	<u>47,684</u>
-	236,067
-	<u>(132,033)</u>
-	<u>104,034</u>
31,157	151,718
<u>2,266</u>	<u>843,814</u>
<u>\$ 33,423</u>	<u>\$ 995,532</u>

The accompanying notes to the financial statements are an integral part of this statement.

OTHER REPORTS

CITY OF IRON MOUNTAIN

FEDERAL AUDIT REPORTS

For the Year Ended June 30, 2006

CITY OF IRON MOUNTAIN

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Commissioners
City of Iron Mountain
Iron Mountain, Michigan

We have audited the financial statements of the business-type activities of the City of Iron Mountain as of and for the year ended June 30, 2006, which collectively comprise the City of Iron Mountain's basic financial statements, and have issued our report thereon dated September 29, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Iron Mountain's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Iron Mountain's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson Tackman & Co. PLLC

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

September 29, 2006

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

Board of Commissioners
City of Iron Mountain
Iron Mountain, Michigan

Compliance

We have audited the compliance of City of Iron Mountain with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each of its major federal programs for the year ended June 30, 2006. City of Iron Mountain's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Iron Mountain's management. Our responsibility is to express an opinion on City of Iron Mountain's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Iron Mountain's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Iron Mountain's compliance with those requirements.

In our opinion the City of Iron Mountain complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of City of Iron Mountain is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered City of Iron Mountain's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants, that would be material in relation to a major federal program being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson Tackman & Co. PLLC

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

September 29, 2006

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



CITY OF IRON MOUNTAIN

For the Year Ended June 30, 2006

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

<u>Federal Grantor/Pass Through Grantor</u>	<u>Grant Number</u>	<u>Federal CFDA Number</u>	<u>Award Amount</u>	<u>Federal Expenditures</u>
Economic Development Grant	MSC 203057-EDIG	14.228	\$ 915,300	\$ 654,901
Enforcement Grant	PT-06-38	20.600	21,883	21,883
	PT-06-84	20.600	5,000	5,000
Youth Alcohol Enforcement Grant	AL-06-19	20.601	11,977	11,977
Enforcement Zone Grant	PT-05-88	20.602	16,729	<u>16,729</u>
TOTAL FEDERAL EXPENDITURES				<u>\$ 710,490</u>

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See accompanying notes to the schedule of expenditures of federal awards.

CITY OF IRON MOUNTAIN

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2006

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Iron Mountain and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

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CITY OF IRON MOUNTAIN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2006

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion of the general purpose financial statements of the City of Iron Mountain.
2. There were no reportable conditions relating to the audit of the general purpose financial statements.
3. There were no instances of noncompliance material to the general purpose financial statements of the City of Iron Mountain.
4. There were no reportable conditions relating to the audit of the major federal award programs as reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the City of Iron Mountain expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for the City of Iron Mountain.
7. The programs tested as major programs included:
 - A. Economic Development Grant – CFDA 14.228
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. City of Iron Mountain was not determined to be a low-risk auditee.

FINDINGS – FINANCIAL STATEMENT AUDIT

1. There were no reportable conditions.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

1. There were no findings or questioned costs.

PRIOR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

1. There were no findings or questioned costs.



ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

A Regional Firm with Offices in Michigan and Wisconsin

Principals - Iron Mountain:
L. Robert Schaut, CPA
David J. Johnson, CPA
Shane M. Ellison, CPA

Member of:
Private Companies Practice Section
American Institute of Certified
Public Accountants

September 29, 2006

Members of the City Council
City of Iron Mountain
Iron Mountain, Michigan

Dear Council Members:

We recently completed our audit of the City of Iron Mountain for the year ended June 30, 2006. Based upon our audit procedures and observations we make the following comments and recommendations:

Comment 1.

Statement On Auditing Standards (SAS) No. 99 was first applicable for the year ended June 30, 2004. In our letter of comments and recommendations dated August 18, 2004, we commented on the applicability of SAS No. 99 and how it emphasizes the importance of implementing procedures to understand the forms of fraud, evaluating fraud risk, mitigating fraud risk, and communicating to employees the Board's views and positions relative to ethical behavior. We also provided an exhibit from SAS No. 99 that provides guidance for the implementation of antifraud programs and controls.

As of June 30, 2006, we noted that no formal action relative to this matter was taken as of yet by the Council. Once again, we encourage you to do so. We have provided the SAS No. 99 Implementation Guide.

Comment 2.

During our examination of payroll activity, we noted that there was no written documentation of the hourly rate paid to payroll dispatchers beyond the amounts budgeted.

Recommendation

Specific hourly rates of pay should be outlined and approved for dispatch personnel along with all other employees.

Comment 3.

Optimum segregation of duties, given limited resources of personnel and financial resources, is difficult to achieve. However, certain matters are more sensitive than others and in the case of the City of Iron Mountain an issue is the segregation of the responsibility for making and approving journal entries from investment and bank transfer activities.

Recommendation

Review job descriptions and assignments to optimize the segregation of duties, including the areas of general ledger control over journal entries and control over investments and bank transfers. Our recommendation is that those functions be separated if at all possible.

Comment 4.

Public Act 621 of 1978, as amended, provides that a City shall not incur expenditures in excess of amounts appropriated. The City budgeted expenditures on a functional basis.

During the year ended June 30, 2006, the City incurred expenditures in a certain account which was in excess of the amounts appropriated as follows:

<u>Fund</u>	<u>Total</u> <u>Expended</u>	<u>Expenditure</u> <u>Appropriated</u>	<u>Excess</u> <u>Amount</u>
General Fund:			
General Government	\$953,205	\$907,620	\$(45,585)
Debt Service	\$ 27,891	\$ -	\$(27,891)

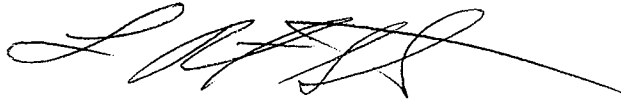
September 29, 2006
City of Iron Mountain
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Recommendation

The excess of expenditures over appropriations were primarily the result of an audit adjustment to record the new capital lease in the general fund. While the complexities of the budget process makes it difficult to avoid such variances, we encourage you to continue your efforts to avoid expenditures in excess of budgeted amounts.

Very truly yours,

ANDERSON, TACKMAN & COMPANY, PLC

A handwritten signature in black ink, appearing to read 'L. Robert Schaut', with a long horizontal flourish extending to the right.

L. Robert Schaut, CPA
Senior Principal